

**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SIMPSON COUNTY SHERIFF

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Simpson County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$41,124 from the prior year, resulting in excess fees of \$628,861 as of December 31, 2011. Revenues increased by \$37,893 from the prior year and expenditures decreased by \$3,231.

Report Comments:

- 2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts And Bank Reconciliations
- 2011-02 The Sheriff Should Consult County Attorney About Vehicle Expenditures
- 2011-03 The Sheriff Should Have Expended Funds For Allowable Purposes

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS.....	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENTS AND RECOMMENDATIONS.....	15



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Henderson, Simpson County Judge/Executive
The Honorable Chris Cline, Simpson County Sheriff
Members of the Simpson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees -regulatory basis of the Sheriff of Simpson County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2012 on our consideration of the Simpson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Henderson, Simpson County Judge/Executive
The Honorable Chris Cline, Simpson County Sheriff
Members of the Simpson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts And Bank Reconciliations
- 2011-02 The Sheriff Should Consult County Attorney About Vehicle Expenditures
- 2011-03 The Sheriff Should Have Expended Funds For Allowable Purposes

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Simpson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

April 19, 2012

SIMPSON COUNTY
CHRIS CLINE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Federal Grants -

Justice Assistance Grant	\$	1,278		
Highway Safety Grant		816	\$	2,094

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)				28,805
---	--	--	--	--------

State Fees For Services:

Finance and Administration Cabinet		81,054		
Patient Transportation		1,211		
Sheriff Security Service		19,148		101,413

Circuit Court Clerk:

Fines and Fees Collected				1,595
--------------------------	--	--	--	-------

Fiscal Court				75,784
--------------	--	--	--	--------

County Clerk - Delinquent Taxes				39,062
---------------------------------	--	--	--	--------

Commission On Taxes Collected				336,198
-------------------------------	--	--	--	---------

Fees Collected For Services:

Add-On Fees		20,345		
Auto Inspections		7,675		
Accident/Police Reports		1,066		
Serving Papers		76,301		
CCDW and Photos		4,995		
Fingerprinting		2,630		
Transporting Prisoners - Lifeskills		589		113,601

Other:

Miscellaneous		540		
Security - Kentucky Downs		2,856		
Drug Task Force Overtime Reimbursement		740		4,136

Interest Earned				1,066
-----------------	--	--	--	-------

Total Revenues				703,754
----------------	--	--	--	---------

The accompanying notes are an integral part of this financial statement.

SIMPSON COUNTY
CHRIS CLINE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

Expenditures

Operating Expenditures:

Materials and Supplies-

Office Materials and Supplies

\$ 409

Total Expenditures

\$ 409

Net Revenues

703,345

Less: Statutory Maximum

73,564

Excess Fees

629,781

Less: Training Incentive Benefit

920

Excess Fees Due County for 2011

628,861

Payments to Fiscal Court - Monthly

628,861

Balance Due Fiscal Court at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Simpson County Sheriff participates in a fee pooling system with the Fiscal Court. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts due to the taxing districts. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays almost all operating expenses for the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.76 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 3. Deposits

The Simpson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Simpson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Account

The Simpson County Sheriff's office maintains a Drug account that is used for the purpose of law enforcement. The beginning balance in this fund was \$29. Funds of \$16,649 were received and expenditures totaled \$13,059. The total fund balance was \$3,619 as of December 31, 2011.

Note 5. Donation Account

The Simpson County Sheriff's office maintains a Donation account. The beginning balance in this fund was \$771. No donations were received in calendar year 2011 and expenditures totaled \$612. The total fund balance was \$159 as of December 31, 2011.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Henderson, Simpson County Judge/Executive
The Honorable Chris Cline, Simpson County Sheriff
Members of the Simpson County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Simpson County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Simpson County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Simpson County Sheriff's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2011-02 and 2011-03.

The Simpson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Simpson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

April 19, 2012

COMMENTS AND RECOMMENDATIONS

SIMPSON COUNTY
CHRIS CLINE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2011

INTERNAL CONTROL – MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts And Bank Reconciliations

During review of internal controls, we noted the Sheriff's bookkeeper receives and records cash, opens and processes mail, prepares daily checkout sheets, makes daily bank deposits, reconciles bank records to the ledgers, and prepares all monthly reports. The Sheriff or another individual did not consistently document oversight of any of these activities.

Lack of oversight could result in misappropriation of assets/and or inaccurate financial reporting to external agencies such as the Simpson County Fiscal Court and the Department for Local Government, which could occur but go undetected.

The Sheriff should separate the duties of collecting receipts, preparing daily deposits, preparing reconciliations, and preparing financial reports. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties. These compensating controls should be documented. The control deficiency as described above is a significant deficiency and a material weakness.

Sheriff's Response: We have been doing better in this area as the auditors noted. We will continue to segregate duties moving forward.

COMPLIANCE AND OTHER MATTERS:

2011-02 The Sheriff Should Consult County Attorney About Vehicle Expenditures

The Simpson County Fiscal Court leased the Simpson County Sheriff's personal vehicle until December 7, 2011. On December 20, 2011, the Simpson County Fiscal Court voted to reimburse the Sheriff for mileage for official use of his personal vehicle. On December 16, 2011, the Sheriff had work done on his personal vehicle such as oil change, brake pads and rotors changed, and other service. When the Simpson County Sheriff's office contacted the Simpson County Judge/Executive's office to obtain a purchase order number, the Simpson County Treasurer refused to provide a purchase order number. The County Treasurer refused because she believed the Fiscal Court was no longer responsible for these expenditures since the lease between the Fiscal Court and the Sheriff had been terminated on December 7, 2011. When the Sheriff received the invoice from this vendor, he paid the invoice in the amount of \$1,409 from the drug fund. On January 10, 2012, the Sheriff's office received a refund for overpayment of \$209 from the vendor. We recommend the Sheriff consult with the Simpson County Attorney about the appropriateness of paying the automobile expenditures of \$1,200 from the drug fund since the expenditure was incurred between the end of the lease and the beginning of the mileage reimbursement.

Sheriff's Response: I have been using my personal vehicle since taking over as Sheriff in June 2010 exclusively for my duties as Simpson County Sheriff. That vehicle is still being used for that purpose on the date of this response. The county agreed to pay all expenses associated with the use of that vehicle including wear and tear, regular maintenance, and fuel costs. We thought the lease agreement was through January 2012. However, the agreement expired in December 2011. As noted, on December 20, 2011 the county agreed to start refunding me for mileage.

SIMPSON COUNTY
CHRIS CLINE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2011
(Continued)

COMPLIANCE AND OTHER MATTERS (CONTINUED):

2011-02 The Sheriff Should Consult County Attorney About Vehicle Expenditures (Continued)

Sheriff's Response (Continued):

From December 7, 2011 until December 20, 2011 the vehicle was still being utilized for the Simpson County Sheriff's Office and still is being used for that purpose to date.

The brakes, rotors, oil change, and other service performed was a direct result of using that vehicle for the Simpson County Sheriff's Office. On the advice of counsel, after the county refused to pay for the maintenance work, the vehicle maintenance was paid for out of the drug fund. It is my belief this was appropriate as the vehicle was being used for the duties associated with the Simpson County Sheriff's Office. For example, that vehicle was used in a high-speed pursuit during which a drug dealer was apprehended and a significant drug seizure was made.

It was a direct result of this pursuit and others, in addition to the normal response to calls of service during which high speeds and extreme wear on the breaking system caused the vehicle to require those services be performed. The county has refused to pay for other items related to the day to day operations at the Simpson County Sheriff's Office in the past which we were forced to utilize the drug fund to pay for. This instance is no different. I have notified the Simpson County Attorney of our decision and I believe the expenditure was very appropriate.

2011-03 The Sheriff Should Have Expended Funds For Allowable Purposes

In Funk vs. Milliken, 317 S.W. 2d 299 (KY 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if the expenditures are necessary, adequately documented, reasonable in amount, beneficial to the public, and not predominantly personal in nature. During our test of expenditures we noted the Sheriff expended \$412 from the drug account for drug free pens which listed the Sheriff's name on them. We recommend the Sheriff deposit personal funds in the amount of \$412 into his drug account for this disallowed expenditure. We recommend the Sheriff's office expend funds for official purposes and that these expenditures be necessary, adequately documented, reasonable in amount, beneficial to the public, and not predominately personal in nature.

Sheriff's Response: To clarify, the pens had a drug free message on them which contained the "NO DRUGS" symbol and read:

Sheriff Chris Cline

Simpson County

Sheriff's Office - (which was in a larger font and in bold letters)

Being Drug Free

Is A Clear Choice for Me

First, I believe it is important to point out that no tax dollars were expended. This purchase was made out of the drug account which is money my office has seized from drug dealers. The pens were purchased while I was out of town. Although I am not sure this was "predominately personal" in nature, I have reimbursed the drug account for this expenditure with my personal funds via check.

